

Message Text

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SUBJECT: STUDY OF CANADIAN TEXTILE INDUSTRY

SUMMARY: IN THE FIFTH OF ITS ACCENT QUEBEC SERIES ON ISSUES OF ECONOMIC IMPORTANCE IN QUEBEC-CANADA CONTEXT, C.D. HOWE INSTITUTE HAS ADDRESSED CANADIAN TEXTILE INDUSTRY AND CONCLUDED THAT FEDERAL AND PROVINCIAL TEXTILE POLICIES SHOULD BE RE-EXAMINED WITH VIEW TOWARD EVENTUAL PHASE-OUT OF SPECIAL PROTECTION. WHILE CONCLUSION IS NOT SURPRISING, STUDY CONTAINS SOME ANALYSIS AND INFORMATION, INCLUDING REGIONAL COSTS OF PROTECTION, WHICH MAY BE OF INTEREST TO WASHINGTON AGENCIES. COPIES OF REPORT POUCHED EB/ICD/FTD. END SUMMARY.

1. SUGGESTION THAT BOTH FEDERAL AND PROVINCIAL GOVERNMENTS EXAMINE ALTERNATIVES TO CONTINUED LONG TERM PROTECTION IS BASED ON THREE PRIMARY CONSIDERATIONS:

A) AS RESULT OF WAGE DISADVANTAGE AND LIMITED SIZE OF CANADIAN MARKET, THERE IS NO LIKELIHOOD OF A MAJOR PART OF CANADA'S TEXTILE INDUSTRY BECOMING INTERNATIONALLY VIABLE; B) FAILURE OF CANADA'S MANUFACTURING SECTOR TO KEEP UP WITH PRODUCTIVITY INCREASES IN OTHER INDUSTRIALIZED AND SEMI-INDUSTRIALIZED
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COUNTRIES ARE BECOMING CRITICAL AND TEXTILE INDUSTRY REPRESENTS SUBSTANTIAL DRAG; C) INTERREGIONAL TRANSFERS, WITH OTHER PROVINCES OBJECTING TO COSTS OF MAINTAINING INEFFICIENT INDUSTRIES IN QUEBEC AND ONTARIO, HAVE BECOME SERIOUS IRRITANTS IN CANADIAN CONFEDERATION.

2. STUDY STATES THAT IMPORT PENETRATION IS MUCH MORE SERIOUS

IN CANADA THAN IT IS IN REST OF INDUSTRIALIZED WORLD, DUE BOTH TO RELATIVE OPENNESS OF CANADIAN MARKET AND WEKNESS OF DOMESTIC TEXTILE INDUSTRY. IN VOLUME TERMS, CANADIAN PRODUCERS MANAGED TO SUPPLY ONLY 39 PERCENT OF TOAL CANADIAN DEMAND IN 1976; IMPORTS GREW BY 137 PERCENT FROM 1965 TO 1975, COMPARED TO GROWTH OF ONLY 16 PERCENT FOR DOMESTIC SHIPMENTS. AS RESULT, CANADIANS NOW CONSUME MORE IMPORTED CLOTHING PER PERSON THAN INHABITANTS OF ANY OTHER COUNTRY EXCEPT SWEDEN. WHILE DEVELOPING COUNTRIES NOW SUPPLY MORE THAN THREE-QUARTERS OF ALL CLOTHING IMPORTS, FIGURES SHOW THAT US IS SINGLE MOST IMPORTANT SOURCE OF TOTAL CANADIAN TEXTILE IMPORTS, BOTH ON YARN EQUIVALENT AND ON DOLLAR BASIS. TARIFFS PROTECTING CANADIAN TEXTILE INDUSTRY ARE SHOW TO BE LOWER THAN THOSE IN EFFECT IN US; AT SAME TIME STUDY STATES CANADA LAGS WELL BEHIND OTHER OECD COUNTRIES IN PERCENTAGE OF TEXTILE IMPORTS COVERED BY SPECIAL IMPORT RESTRAINING PROGRAMS.

3. GOVERNMENT'S TEXTILE POLICY HAS PARTICULAR IMPORTANCE FOR QUEBEC, WHICH IS PRINCIPAL BENEFICIARY OF TEXTILE PROTECTION AND WHICH ACCOUNTS FOR 60 PERCENT OF CANADA'S TEXTILE EMPLOYMENT. WITHIN PROVINCE, WHERE TEXTILE WORKFORCE HAS DECLINED FROM 113,000 TO 97,000 OVER LAST FOUR YEARS, TEXTILE WORKERS ACCOUNT FOR 180 ERCENT OF MANUFACTURING LABOR AND 4 PERCENT OF TOTAL PROVINCIAL WORK FORCE. IN ADDITION TO REDUCTION IN NUMBER OF WORKERS, THERE HAS ALSO BEEN APPARENT SHIFT IN STRUCTURE OF QUEBEC'S TEXTILE INDUSTRY, WITH DECLINE IN UNCLASSIFIED

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RELATIVEE IMPORTANCE OF MAN-MADE-PRIMARY TEXTILES, THE SEGMENT OF INDUSTRY IN WHICH VALUE ADDED IS HIGHEST. STUDY ACKNOWLEDGES THAT TEXTILE INDUSTRY HAS MADE MAJOR CONTRIBU- TION TO ECONOMIES OF SMALL TOWNS IN QUEBEC AND ONTARIO, BUT VIEWS THIS CONTRIBUTION DIMINISHING TO EXTENT THAT IT WILL NOT JUSTIFY SPECIAL PROTECTION IN FUTURE.

4. STUDY CONCLUDES THAT IN VERY SHORT TERM, WHEN UNEMPLOY- MENT IS HIGH, PROTECTION THAT PERMITS TEXTILE COMPANIES TO KEEP THEIR EMPLOYEES IS PROBABLY LEAST EXPENSIVE ALTERNATIVE FOR TAXPAYERS. OVER LONG TERM, HOWEVER, REAL COSTS OF INEFFICIENCIES IN MAINTAINING A TEXTILE INDUSTRY SUGGEST THAT GOVERNMENT SERIOUSLY EXAMINE ITS TEXTILE POLICY, WITH OBJECTIVE OF ELABORATING STRATEGY, ENCOMPASSING DETAILED ADJUSTMENT PROGRAM THAT WOULD PROTECT IMMOBILE WORKERS, BUT THAT WOULD BE BASED ON A PLANNED PHASE OUT OF PROTECTION.

5. COMMENT: AS STUDY REPORTS, DIFFICULTY IN ELABORATING NEW POLICY WILL BE IN DEVISING STRATEGY WHICH PERMITS MOVEMENT FROM SHORT TERM TO LONG TERM, WITHOUT PERPETUATING FORMER. WITH QUEBEC MAJOR BENEFICIARY OF PRESENT POLICY, AND WITH UNEMPLOYMENT EXPECTED TO REMAIN AT UNACCEPTABLY HIGH LEVELS,

THERE IS LITTLE CHANCE THAT PROVINCIAL GOVERNMENT WOULD
SUPPORT EFFORTS TO REDIRECT TEXTILE POLICY, EVEN THOUGH RATIONALIZA-
TION OF PROVINCE'S INDUSTRIAL STRUCTURE MIGHT MAKE SOUND LONG
TERM ECONOMIC SENSE. PROBLEM THAT QUEBEC WOULD FACE IN FINDING
ALTERNATIVE EMPLOYMENT FOR WORKERS DISPLACED FROM TEXTILE
SECTOR WOULD BE MUCH WORSE THAN THAT OF ONTARIO. IN 1976 REPORT,
QUEBEC MINISTRY OF INDUSTRY AND COMMERCE RECOMMENDED THAT MAIN-
TAINING LEVEL OF EMPLOYMENT BE PRINCIPAL OBJECTIVE OF TEXTILE
POLICY, AT LEAST UNTIL MID 1980'S WHEN RATE OF GROWTH OF
LABOR FORCE IS EXPECTED TO DECLINE. IMPOSSIBLE TASK FACING
PARTI QUEBECOIS IS ATTEMPT TO RECONCILE ROLE OF TEXTILE
INDUSTRY WITH AIM OF SEPARATION, AS EXTREME VULNERABILITY OF
QUEBEC'S HIGHLY PROTECTED TEXTILE INDUSTRY MARKEDLY WEAKENS
PQ BARGAINING POSITION WITH OTHER PROVINCES.
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